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3:30 PM

THE WHITE HOUSE

WASHINGTON

December 20, 1978

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: Social Security-Cruikshank Meeting

I met yesterday with a representative group of senior citizen leaders, who were extremely upset about the contemplated cuts in Social Security benefits. (I have asked Joe Califano to meet with the group as well.) I think that many of their concerns are legitimate and that they will orchestrate a loud public outcry against our Social Security budget.

If there is any one Federal program whose cuts should be handled very carefully, it is Social Security - it has an enormously powerful and large constituency, and it is a program which many Americans regard as sacrosanct.

You will be meeting with Nelson Cruikshank, Bob Ball today to discuss the Social Security cuts, which as now proposed will reduce payments by roughly \$1 - \$1.5 billion in FY 1979 but \$7 - \$9 billion in FY 1984.

I am ~~attaching~~, at his request, a ^{10-page} memorandum from Bob Ball--written at his own initiative--giving his views and describing problems with the individual proposals which will be widely shared by many traditional supporters of the system. These will be the first major changes in the benefit structure to be proposed without thorough review by the Social Security Advisory Committee and affected groups. They are sure to be attacked as lacking the careful consideration and consultation that has always preceded major changes in the Social Security system and as establishing a long-term precedent by making changes in major contributory programs done for short-term budgetary reasons.

In particular I am concerned that we will be accused of reducing benefits to the elderly to fund defense -- and that the distributional effects of the cuts have not been adequately analyzed. For example, the proposal to cap family benefits would, with respect to disabled persons alone, place 250,000 additional persons below the poverty line even after SSI benefits are factored in.

In addition, I do not believe that elimination of early retirement at age 62 -- which is a major change in national retirement policy -- should be proposed until there has been thorough review of the proposal by the Social Security Advisory Committee and CEA. Simply not showing a budget change will not blunt criticism that we have made this major change -- and others -- before either your Social Security Commission or HEW's statutory Advisory Committee report next year, and that the changes are proposed for budgetary reasons only.

While I do not recommend further reductions in discretionary programs in order to forego the Social Security reductions, I do believe that if funds are available in the final review restoration of a large part of these Social Security reductions should be strongly considered. I hope we can have a thorough discussion at the Friday meeting on the whole issue of the Social Security cuts.

3:30 PM

THE WHITE HOUSE

WASHINGTON

December 19, 1978

MEETING WITH NELSON H. CRUIKSHANK, ET AL.

Wednesday, December 20, 1978

3:30 p.m. (10 minutes)

The Oval Office

From: Nelson H. Cruikshank



I. PURPOSE

To follow-up on my memorandum to you of November 15 (copy attached) relative to the HEW/OMB proposals to reduce social security benefits for reduction of budget deficit.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The HEW/OMB presentations referred to in your note on the subject memo have been held. Participants seek the opportunity to present a written analysis of these proposals and their adverse affect on the social security program and consequent serious, political repercussions.

B. Participants: Nelson H. Cruikshank, Robert M. Ball and Wilbur J. Cohen.

C. Press Plan: None

III. TALKING POINTS:

1. Participants will present an analysis of the specific recommendations of HEW/OMB with emphasis on the unique nature of social security deriving from its being financed by taxes which Congress has earmarked for the specific purpose of income maintenance and family protection.

2. The effect on our relations with Congress where these proposals may well be construed as a misuse of their support last year for restoring financial integrity to the social security system.

3. The danger in proposing substantive changes in social security without consultation with the people affected -- beneficiaries, labor and business. This is a serious

departure from consultative procedures of 43 years standing.

4. The hazards involved in resorting to budget gimmickry -- proposing changes that have little, if any, chance of passage.

5. The serious political repercussions that would arise from changing the basis of entitlement to benefits on which workers are depending and for which they are currently paying taxes.

Attachment

THE WHITE HOUSE

WASHINGTON

November 15, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Nelson H. Cruikshank

The Senior community welcomes the assurances you have given in public statements to the effect that you are not, at present, planning any substantial changes in the Social Security program. However, there remains a strong current of anxiety among older people which arises from statements by various Administration officials that changes in both financing and benefit entitlements are under consideration. Also, I am now informed that OMB is seriously considering cutting Social Security Trust Fund expenditures.

You will in the near future have before you proposals in this area which have far-reaching potentials -- not only in relation to fiscal policy but in relation to the concerns of the 35 million current Social Security beneficiaries and the more than 100 million workers now supporting the system and establishing their expectations by their payroll contributions.

In order that you may have available to you in this extremely sensitive area the opinions of the country's most knowledgeable people in the Social Security field, I am requesting a small, private meeting with the following persons, in addition to myself:

Stanford G. Ross, your Social Security Commissioner and your principal representative in this area.

Robert M. Ball, a strong personal supporter of yours, and the Social Security Commissioner under Presidents Kennedy and Johnson.

Wilbur J. Cohen, also a strong personal supporter of yours, and one who has been intimately identified with the program since it was instituted under President Roosevelt.

Decision

Approved _____

Disapproved _____

Later - after budget discussion - but before I decide
J

THE WHITE HOUSE
WASHINGTON

2-20-88

Zbigniew Brzezinski

The attached was returned
in the President's outbox
today and is forwarded to
you for appropriate handling.

Rick Hutcheson

Please see that Mr. Owen
receives copy of the attached.
Thank you.

THE WHITE HOUSE

WASHINGTON

ACTION

February 15, 1980

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY OWEN ~~AO~~SUBJECT: Resettlement of Indochinese
Refugees in Guyana

Billy Graham recently raised with you the possibility of settling some of the boat people in Guyana. On the basis of inquiries to our Embassy at that time, the prospects looked distantly hopeful but not promising.

Now a team led by Andy Bishop of World Relief, representing six Christian organizations, has had a positive response from the Guyanese government to a proposal for the resettlement of 1500 refugees. The refugees would be equally divided between Lao Hmong refugees currently in Thailand and Dominican Hurricane David refugees. The team thinks that resettlement of as many as 30,000 refugees might be possible if the initial resettlement proved successful. The costs of resettlement would be borne by the organizations represented by the team, in collaboration with the UNHCR "Fund for Durable Solutions" that the U.S. proposed at Geneva last July and that now seems to be coming into being.

You might wish to send a follow-up letter to Dr. Graham.

Recommendation:

That you sign the letter, to Billy Graham at Tab A, which has been cleared by your speechwriters.

Approve _____ Disapprove _____

THE WHITE HOUSE

WASHINGTON

February 20, 1980

Dear Billy:

I understand the Government of Guyana has now agreed to permit the resettlement of 1500 Indo-chinese refugees and is prepared to consider an additional 30,000. The role you and others have played in bringing about this resettlement is commendable.

As you know, I have been pressing for an international refugee-resettlement fund under the auspices of the United Nations High Commissioner for Refugees. The resettling of homeless people is an act of compassion and resettled refugees can be of real benefit to the economic development of their host country. We expect this fund to be established within a few weeks. I suggest that World Relief and the Government of Guyana contact the U.N. High Commissioner for assistance in your resettlement efforts.

Rosalynn and I send our best regards to you and Ruth.

Yours in Christ,



The Reverend Billy Graham
Box 937
Montreat, North Carolina 28757

*ps Thanks for the
information - J*

2:00 PM
C

THE WHITE HOUSE
WASHINGTON

December 19, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON *Jack*
SUBJECT: FY 1980 Budget Meeting with
Democratic Mayors:
Wednesday, December 20, 1978
2:00 p.m. Roosevelt Room

A meeting has been scheduled from 1:45 p.m. - 2:30 p.m. for a delegation of Democratic mayors to meet with you and some of your senior advisors regarding the FY 1980 budget. You are scheduled to join the meeting at 2:00 p.m. At the meeting the Vice President, Stu, Anne and I had with the Democratic mayors in Memphis, we promised them that they would have a chance to speak directly to you regarding their concerns about the FY 1980 budget and its potential impact on programs they consider vital to the continued renewal of the nation's cities. I expect the following specific subjects to be raised:

- CETA;
- Housing Programs (new starts as well as rehabilitation);
- Welfare Reform;
- Supplemental Fiscal Assistance;
- Domestic vs. national security priorities.

The mayors who will attend the meeting are listed on Attachment I. Kevin White is Chairman of the Democratic Caucus this year.

Following your speech to the National League of Cities (NLC) in St. Louis, we have held several consultation sessions with staff and principals of the NLC on the FY 1980 budget. The League has been generally supportive of your anti-inflation program but is extremely concerned about the domestic budget in light of the goal of a \$30 billion deficit, the defense budget real growth commitment and anticipated federal revenues for FY 1980.

Despite these consultations, the big city Democratic mayors view the NLC as representing too diffuse a set of cities to represent their interests adequately. The group you will be seeing considers itself representative of the major urban centers of the country and will much more closely reflect the views being expressed by the U. S. Conference of Mayors. Attached for your information is a recent press release issued by the U.S. Conference on the subject of the FY 1980 budget.

Because these are Democratic mayors, they are generally looking for opportunities to support you. They were very helpful (particularly Coleman Young and Mike Bilandic) during the Memphis Mid-Term Conference. In their meeting with the Vice President in Memphis, they were asked to wait and see whether the FY 1980 budget is developed in a fair and even-handed fashion before making any public statements. They agreed to do this, and to the best of my knowledge, have lived up to that agreement.

We have told the mayors that this meeting is their opportunity to tell you what their priorities are. It is not a session in which you are expected to make any decisions or commitments. I suggest that you make your own opening statement very brief so that virtually all of the time allotted can be spent hearing from them. You might even hold your statement (except simply to welcome them and thank them for coming) to the end of the session, going directly to their comments when you arrive. The following are points you might make in closing:

- ° Your concern for the nation's cities is reflected in the fact that you are the first President to develop and begin systematic implementation of a comprehensive urban policy. You have every intention of pursuing that policy as fully and effectively as possible;
- ° You and your administration have been more successful in combatting unemployment than any other in our nation's peace time history;
- ° The fight against inflation, in all its aspects, is as important an urban program as you have recommended in two years; failure in this battle will have devastating effects on cities with large numbers of poor and others living on fixed incomes;
- ° Everyone, and every sector of the economy, will have to do their share in the fight;
- ° As elected officials and as Democrats you need their help and leadership in this effort;
- ° You recognize that public support will be potentially difficult for them in a narrow sense, but the goal is clearly popular in the country at large and it is the right thing for their cities and the country over the long run.

Agenda

- 1:45 - Discussion by Mayors with OMB and Senior
2:00 White House Staff (and Vice President, if possible).
- 2:00 President joins meeting for discussion with Mayors.

Press Coverage

There will be a brief photo session at the beginning of your meeting with the Mayors.

ATTACHMENT I

ATTENDEES

FY 1980 BUDGET MEETING WITH DEMOCRATIC MAYORS

December 20, 1978

1:45 p.m. Roosevelt Room

Kevin White (Boston - Chairman, Democratic Mayors Conference)

Lee Alexander (Syracuse, N.Y.)

Kenneth Gibson (Newark, New Jersey)

Richard Hatcher (Gary, Indiana)

Maynard Jackson (Atlanta, Georgia)

Henry Maier (Milwaukee, Wisc.)

Ernest Morial (New Orleans, La.)

Charles Royer (Seattle, Wash.)

Coleman Young (Detroit, Mich)

John Gunther (Executive Director, U. S. Conference of Mayors)

George Gross (Deputy Director, National League of Cities)

NEWS



United States Conference of Mayors

1620 Eye Street, N.W. Washington, D. C. 20006

FOR RELEASE 6 P.M. SATURDAY
DECEMBER 16, 1978

CONTACT: GENE RUSSELL
PHONE: (202) 293-7133
(703) 765-9531

CARTER BEING ADVISED TO ABANDON

MAJOR PORTIONS OF NEW URBAN POLICY

WASHINGTON, Dec. 16 -- President Carter is being advised to abandon major portions of his March 27 National Urban Policy as part of his anti-inflation campaign, the U.S. Conference of Mayors charged today.

Major components of the policy such as supplemental fiscal assistance, public works and jobs programs, an urban parks proposal and other significant elements of the policy would be scrapped or substantially reduced if the President's advisors have their way, the Conference of Mayors charged in a staff analysis.

Not only would a number of these new initiatives be abandoned but the President's men are urging him to hold a number of current social domestic programs at levels which would result in reductions next year.

An analysis of President Carter's proposed budget for the year beginning Oct. 1, 1979, was made by the staff of the U.S. Conference of Mayors and mailed last week to 800 Mayors across the country.

The analysis was made public today.

(over)

"I think it important that the American people understand the depth of the proposed cuts," John Gunther, the executive director of the Conference, said in making the analysis public.

The study was based on staff intelligence gained from interviews with federal officials, conversations with regular government contacts and from sources from within the Administration and on Capitol Hill as well as from an examination of a number of federal documents.

"Our intelligence suggests that between \$15 and \$20 billion in cuts is being urged in social domestic spending on the President," Gunther said.

"These kinds of cuts, if carried through, would force the burden of fighting inflation on the poor, the minorities and on the problems that plague America's cities.

"These proposed cuts would come just as a number of cities across the country are pulling out of a sharp social and economic decline which has been occurring for the past two decades. These kinds of proposed federal budget cuts could destabilize these cities and bump them into a new sharp decline," Gunther said.

He said a number of Mayors are requesting a meeting with the President before the final budget decisions are made and pointed out that the Conference is on record and actively supports President Carter's anti-inflation plan but takes "serious exception to making inequitable cuts in social domestic programs."

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(Editor's note: Attached is the staff analysis of the Administration's proposed budget.)

UNITED STATES CONFERENCE OF MAYORS

1620 EYE STREET, NORTHWEST

WASHINGTON, D. C. 20006

President:

WILLIAM H. McNICHOLS, JR.
Mayor of Denver

December 6, 1978

Vice President:

RICHARD E. CARVER
Mayor of Peoria

Past Presidents:

LEE ALEXANDER
Mayor of Syracuse
KENNETH A. GIBSON
Mayor of Newark
HENRY W. MAIER
Mayor of Milwaukee

Trustees:

HELEN G. BOOSALIS
Mayor of Lincoln
NEIL GOLDSCHMIDT
Mayor of Portland
MARGARET T. HANCE
Mayor of Phoenix
JANET GRAY HAYES
Mayor of San Jose
MAYNARD JACKSON
Mayor of Atlanta
PATIENCE S. LATTING
Mayor of Oklahoma City
LEWIS C. MURPHY
Mayor of Tucson
HERNAN PADILLA
Mayor of San Juan
GEORGE M. SULLIVAN
Mayor of Anchorage
KEVIN H. WHITE
Mayor of Boston
COLEMAN A. YOUNG
Mayor of Detroit

Advisory Board:

RICHARD G. HATCHER, *Chairman*
Mayor of Gary
MICHAEL A. BILANDIC
Mayor of Chicago
THOMAS BRADLEY
Mayor of Los Angeles
WYETH CHANDLER
Mayor of Memphis
STANLEY A. CMICH
Mayor of Canton
LILA COCKRELL
Mayor of San Antonio
RICHARD H. FULTON
Mayor of Nashville
WILLIAM E. HANNA
Mayor of Rockville
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Mayor of New Haven
ANGELO R. MARTINELLI
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CAROLE K. MCCLELLAN
Mayor of Austin
JAMES H. MCGEE
Mayor of Dayton
TOM MOODY
Mayor of Columbus, Ohio
GEORGE R. MOSCONE
Mayor of San Francisco
JOHN P. ROUSAKIS
Mayor of Savannah
E. CLAY SHAW, JR.
Mayor of Fort Lauderdale
IRVING M. STERN
Mayor of St. Louis Park, Minn.
HANS G. TANZLER, JR.
Mayor of Jacksonville
LOUIS J. TULLIO
Mayor of Erie
DAVID J. VANN
Mayor of Birmingham
WARREN WIDENER
Mayor of Berkeley
PETE WILSON
Mayor of San Diego
TED L. WILSON
Mayor of Salt Lake City

Executive Director:

JOHN J. GUNTHER

TO: The Mayor

FROM: John J. Gunther
Executive Director

RE: Update of 1980 Federal Budget Decisions

As I indicated in my November 22 memo to you, every indication continues to point towards 1980 Federal Budget cuts in the domestic area. Attached you will find a staff memorandum which gives our latest picture.

Please understand that the President has not signed off on any budget levels for 1980. Our best information is that he will review the Office of Management and Budget recommendations before Christmas.

The Conference of Mayors is on record in supporting the President's effort to fight inflation. If the battle against inflation demands austerity in federal spending, we have continued to argue that equity requires an even-handed approach through all sectors of the Federal Budget.

Again, the President has not signed off on the 1980 budget recommendations. This information at this time is provided so that you can assess the impact of widespread cutbacks of federal programs important to your community and make your views known to the President as soon as possible.

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Mayor of Berkeley
PETE WILSON
Mayor of San Diego
TED L. WILSON
Mayor of Salt Lake City

Executive Director:

JOHN J. GUNTHER

December 6, 1978

TO: John Gunther, Executive Director
FROM: Tom Cochran, Deputy Executive Director and Senior Staff
SUBJECT: Urban Program Budget Information

The recommendations being made to President Carter regarding domestic spending in the next budget may mean as much as a \$15 billion cut in domestic spending programs beginning October 1. This figure has been widely reported in the press and discussed by Administration officials.

It is difficult to translate these figures on a regional or local basis, but it is not unrealistic to suggest that whatever amount of federal dollars cities are receiving this year may be substantially reduced next year. In addition, when President Carter announced his urban policy on March 27, 1978, he proposed a number of specific programs. It now appears that the President is being advised by some Administration officials to abandon a number of major programs contained in that policy.

To date, federal agencies have submitted their budget proposals to the Office of Management and Budget. Our information suggests that these requests have been sharply scrutinized or cut back. Federal departments are now, in many cases, appealing these preliminary decisions. In some cases these appeals are going to senior officials in the White House. Final OMB recommendations will be made by mid-December. Presidential signoff on budget decisions will probably take place before Christmas.

We will not officially know final budget decisions until the budget is published in January, probably just prior to the U.S. Conference of Mayors Midwinter Meeting, which is being held in Washington, January 25 and 26.

Attached is our best intelligence on some of our key urban programs. While it does not include all of the federal urban programs of concern to cities, it reflects the latest information we have to date.

THE CETA PROGRAM

The Office of Management and Budget is suggesting that the \$10 billion CETA program be reduced by about \$4 billion. This amounts to the loss of approximately 400,000 jobs, including all of the jobs that were authorized as part of President Carter's economic stimulus program. In addition, recommendations include eliminating most of the youth employment programs. About half of the summer youth jobs are abolished. There is some question as to the Administration's commitment to the \$400 million private sector jobs program.

HUMAN DEVELOPMENT

Overall, OMB may cut the HEW budget request by about \$5 billion, affecting programs in cities for health, education and social services. Eliminated entirely will be comprehensive health grants to states which supply critical funds to local health departments and similar grants for alcoholism and drug abuse. In addition, many of the social service programs, including those for the elderly and the handicapped, may be cut substantially.

COMMUNITY DEVELOPMENT AND HOUSING

The Office of Management and Budget returned HUD's request and severely cut back subsidized housing programs for the poor. Public housing and rent subsidy programs will be cut \$6 billion. For example, in 1978, \$38.5 billion was pipelined for subsidized housing. Now, if approved, in 1980, only \$23.5 billion will be available.

The community development block grant program, which has grown annually since enacted in 1974 will, in fact, be held at a current level of \$3.8 billion.

Home Improvement Loans (Section 312), expanded this year from \$80 million to \$245 million as a result of President Carter's urban policy, will be cut to \$160 million.

TRANSPORTATION

OMB is attempting to rescind a recently passed urban transit operating assistance program designed primarily to aid urban areas with over 750,000 population. There is authorized \$250 million for this program and \$150 has been appropriated for the current year ending September 30. OMB now wants to pull back this appropriation for 1979 and eliminate it in the 1980 budget as well.

In addition, other possible targets include cutbacks in the urban transit discretionary program which includes funds for light rail and subway construction, bus acquisition programs and the President's urban policy initiative of \$200 million announced March 27.

OMB is also proposing that AMTRAK's budget be reduced by \$145 million from its \$600 million level.

ENVIRONMENT

Programs of the Environmental Protection Agency face major OMB proposed cuts. Approximately \$1 billion is being proposed in reductions for the waste water treatment construction program, authorized at \$5 billion. Other possible cutbacks now being discussed include water quality and air quality planning programs.

URBAN PARKS

The Interior Department's new Urban Parks program, passed as part of the President's urban policy, is unlikely to receive any of its authorized \$150 million in fiscal 1979. Funding for 1980 is also uncertain.

PRESIDENT CARTER'S MARCH 27 URBAN POLICY

The antirecession fiscal assistance program expired September 30 of this year and was not renewed by Congress. Two other key programs proposed by the President -- the Labor Intensive Public Works program providing \$1 billion annually and the National Urban Bank -- were not acted on by Congress. The Administration is presently discussing whether or not they will re-introduce these proposals.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

C

EYES ONLY

December 20, 1978

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze *CLS*
Subject: New Orders for Durable Goods in November

Tomorrow (Thursday, December 21) at 2:00 p.m., the Census Bureau will publish its preliminary estimates of new orders for durable goods in November. The numbers are hard to interpret.

Total new orders declined 0.9 percent in November; if a large increase in orders for defense goods is taken out, the total is down 3 percent. These orders, however, have been rising at a phenomenal pace in the past several months, so that a decline is not surprising. Relative to the third quarter, total orders in November were up at an annual rate of roughly 40 percent.

Orders for nondefense capital goods, an indicator of business investment spending, fell by 10 percent in November, a very sharp decline. Excluding the volatile commercial aircraft component, these orders were down 7 percent. These orders, too, have been rising in recent months. Nondefense capital goods orders in November were about 25 percent above the third quarter at an annual rate.

In summary, the November new orders figures do not give us much new information about the future path of the economy. In total, they are encouraging; in the case of capital goods orders, they are slightly bearish.

THE WHITE HOUSE
WASHINGTON

12/20/78

FOR THE RECORD:

THE ATTACHED WAS GIVEN TO THE PRESIDENT
TODAY IN A MEETING WITH NELSON CRUIKSHANK.
STU AND JIM MCINTYRE WERE GIVEN COPIES.

THE WHITE HOUSE
WASHINGTON

December 19, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT M. BALL
WILBUR J. COHEN
NELSON H. CRUIKSHANK

RM Ball
Wilbur J. Cohen
NH Cruikshank

SUBJECT: Analysis of HEW/OMB Budget Proposals for FY '80
as they relate to Social Security Trust Fund
Expenditures

cc Mr. Inlyne
Sta
These arguments
are very
persuasive -
Please answer
Friday
J

Before getting to the specifics of the HEW/OMB budget proposals for social security, let us offer these general points:

1. The only social security proposals that make substantial reductions in short-term expenditures result in reductions several times as large a few years hence and are the consequence of major reductions in benefit protection.

No Administration can make such proposals as part of a budget submittal with no discussion with outside groups, advisory councils, etc., (and without recommendation for some offsetting improvements) without being perceived as "anti-social security."

2. There is a fundamental difference between a decision in a particular budget year to fund general revenue authorizations at a lower level (such funding can be increased again in a later year) and recommendations to permanently change the benefit protection provided by social security. In the latter case, the recommendation is to permanently reduce, in a self-financed program, the level of protection that people have worked for and paid contributions for.

3. Because social security is separately financed, and because the law requires that all social security contributions be used only for social security purposes, the program cannot effectively be used to help balance the budget. Over time, reductions in social security benefits will call for reductions in social security taxes. For this and for other reasons, the various outside advisory councils that have looked at the social security program over the years have been unanimous in agreeing that social security policy should be made in relation to the purposes of that program and that it should not be subject to the kind of modification for short-term budget or fiscal purposes as general revenue programs are.

4. The "budget game" of asking for some social security reductions (never before such major ones) grows out of the fact that since fiscal year 1969 the separately financed benefits of social security have been lumped with the general revenue expenditures of the rest of HEW in the budget ceiling given the Department. Thus, the Department makes proposals to cut social security benefits (usually quite unrealistic ones) as a way of protecting other Department programs. Then, when the social security proposals are not accepted by the Congress, the total HEW budget is greater than would otherwise have been the case.

5. We cannot realistically act now as if we were designing a new program without taking into account the benefit rights that people are counting on. The HEW/OMB proposals would undermine public confidence in government promises. This doesn't mean that some cut-backs and some liberalizations can't be made, but it does mean they have to be carefully thought through, be adequately discussed, and make sense. The HEW/OMB proposals do not meet these criteria.

CRITIQUE OF HEW/OMB PROPOSALS

1. Reduce benefits payable to families by reducing the family maximum in present law to 150 percent of a retirement or disability benefit or 80 percent of average indexed earnings, whichever is the lower.

This proposal eliminates childrens' benefits where a couple is paid either retirement or disability benefits and greatly reduces protection for young widows and motherless or fatherless children. Its adoption would put several hundred thousand more people below the poverty line.

The proposal is apparently based on a misunderstanding of the nature and objectives of the social security program. Social security is a family oriented program. To prevent poverty and insecurity, it is deliberately designed to pay higher benefits in relation to wages when there are more people dependent on a particular wage. This is one of the big advantages of social security compared to private pensions.

This proposal is particularly troublesome also because it not only would take away future protection that people have been counting on but gradually applies the new provisions to people already receiving benefits, an action which will clearly be seen as a breach of faith.

2. Begin OASI Benefit with First Full Month of Entitlement

The effect of this proposal, of course, is a benefit cut for all people becoming eligible in the future. The worst cases will be people who are not aware of the provision or cannot arrange with their employers to retire at the end of a month. For such people, retiring on the first day of a month would mean that no benefits are payable for the first month they are without wages. Clearly no program rationale -- just a budget gimmick.

3. Phase Out Post-Secondary Student Benefits

The Ford Administration in the fiscal year 1978 budget proposed that students' benefits be dropped, and the Carter Administration has proposed that they be limited to the amount payable under the Basic Educational Opportunity Grant program for needy students. This latter proposal creates a situation in which contributory social security benefits would be related to the loss of parental support for young people through age 17 but would be reduced arbitrarily by a ceiling borrowed from another program at age 18.

Such proposals arise from a misunderstanding of the nature of the social security student benefits. They are not educational grants to needy students but benefits to make up for the loss of support of a parent. Originally social security benefits for young people were terminated at age 18 on the theory that at that age they could go to work and support themselves. The student benefit was added on the rationale that a young person who was attending school full time should not be required to bear the entire burden of self-support.

The fact that there are scholarship programs funded by the Federal Government and based upon a test of need is not particularly relevant to the question, for example: whether a young person who has lost the support of a father, and is receiving a social security benefit to partly make up for the loss of the father's earnings, should continue to receive such benefits while attending school--whether or not such a young person could qualify for an educational grant. This benefit is an important part of the social security program paying some 800,000 students each month. We don't think it should be either eliminated or that the amounts payable should be arbitrarily limited to the payments made under the Basic Educational Opportunity Grant program.

4. Limit Retroactivity for Benefits to 3 Months

This was the way the law used to be, but it became clear that those who were hurt by not filing their applications promptly were the least educated and the least able to pursue their interests. In a contributory program like social security, a good case can be made for paying full benefits due whenever the application is filed, but there is no adequate case for reducing the 12-month period in present law.

This proposal will have a worse effect now than previously because the Social Security Administration no longer notifies people of their possible entitlement when they reach retirement age. This program, which depended on the use of addresses in IRS files, had to be dropped because of the strict language of the new laws on privacy.

5. Reduce Drop-Out Years for Younger Deceased Workers

This proposal would relate the number of drop-out years allowed to the age of the worker. Such a proposal was voted out by the Social Security Subcommittee of the Ways and Means Committee (the full Committee did not act) and was designed to reduce survivors' and disability benefits for young workers. The 1977 amendments have already very substantially reduced benefits for this group, and there is little justification for adding still further reductions. It would reduce the survivors benefits of young workers killed (for example in auto accidents) because their low earnings at beginning jobs would be averaged in with more recent earnings.

6. Eliminate Parents' Benefits (primarily widows) when Youngest Child Reaches 14 Rather than 18 as is under Present Law

The rationale seems to be that a widow should not have the option to stay home when a child reaches 14 but should be forced to go to work. This is a major cut in benefit protection and is not even cushioned by a proposal for a transitional grant or work-training. If this were a brand new program, perhaps some case could be made for a carefully worked out combination of opportunity for part-time employment and an earlier cut-off date in the widow's benefit, but we are dealing here with protection that people have been paying toward since 1939. It will certainly be seen as an attempt to divert social security taxes to budget balancing purposes.

7. Gradually Phase Out the Option that People now have to Receive Actuarially Reduced Benefits at Age 62

This is an HEW proposal that would be very damaging. The great majority of people who take actuarially-reduced benefits now do not do so voluntarily, but because they are out of work or too ill to work. This proposal does not save money in the long run since higher benefits would be paid out for a shorter period of time to those forced to wait to age 65 to get a payment. The effect is almost entirely short-term and transparently designed for budget purposes. Incidentally, one of the people most interested in having an early retirement provision is the Majority Leader of the Senate.

8. Eliminate the Minimum Benefit for new Recipients

The Congress, in the 1977 Amendments, took the proper step to de-emphasize the importance of the minimum benefit. It is now frozen at \$122.00 a month and will not increase as wage indexing increases protection generally under the program. Thus, the minimum benefit under present law is effectively phased out over time. The idea of cutting out the minimum benefit altogether for those coming on the program in the future seems unwise. There are a great many people who have already contributed enough so that they are eligible for the \$122.00 promised under present law and they are counting on it. Although some people entitled to minimum benefits are government employees covered under their own

independent systems, the great majority are not, and many are low-income people. Last year's proposal that people already receiving the minimum be denied future automatic cost-of-living increases also seems bad to us. Although we agree that the minimum benefit should be de-emphasized in the future, as it will be under present law, it seems to us unconscionable to change the rules in the middle of the game and remove protection that people are counting on.

9. Eliminate Lump-Sum Death Benefit

Though low in amount (\$255), this death benefit helps at a time of big expenses. It is the only benefit payable on the contributions of some single workers who die before 62 and are not disabled.

The idea of making provision for a decent burial is very important to many people. Low-income people find it difficult to pay for insurance except on small installments, and therefore dropping this benefit would result in low-income workers buying more so-called "industrial" insurance policies. These policies, for which weekly premiums are collected door-to-door, have administrative costs of 50 percent of premiums plus, compared to under 2 percent for social security.

* * * * *

There are, of course, lots of ways to cut social security benefits and many other proposals have been considered. Most are no better and no worse than these. The main point is that if such modifications are to be made in the social security program, they should be carefully worked out, gradually introduced and have sound program rationale, not merely short-term budget advantage. The issue at stake is no less than the confidence of people in the promises of government. It seems particularly unfortunate that the Administration, which last year took firm steps to restore public confidence in the financial integrity of social security, should now be considering steps that would undermine public confidence in the willingness of government to make good on the benefit promises. The Congress last year was congratulated by the President for making the hard political decision to provide financing for the present level of benefit protection. The program as it is is now soundly financed on a self-supporting basis for the next 50 years.

In terms of social security policy, there is no basis for considering major reductions in the level of protection.

THE WHITE HOUSE

WASHINGTON

December 20, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Nelson H. Cruikshank



SUBJECT: Political Aspects of HEW/OMB Social Security
Benefit Reduction Proposals

Robert Ball, Wilbur Cohen and I are leaving with you today our analysis of the potential impact of the subject proposals on the well-being of the beneficiaries and the supporters of the Social Security system.

In addition, I respectfully, as your Counsellor on Aging, bring to your attention what I believe would be the serious adverse political affects if such proposals should be adopted as a part of the Administration's budget for FY '80

Among these are:

1. The Administration in 1977 urged Congress to restore the financial integrity of the social security program, and urged Members of Congress to take the political risk involved in so doing. The Administration stood firm against reconsideration of this program. Congress voted the additional social security taxes to underwrite the long-term obligations of the system. A proposal now to utilize funds derived from these taxes to improve the deficit position of the budget will cause many Members of Congress to believe that they were misled in appeals for their support on the financing provisions. The consequences of this, in terms of our relationship with Congress, could be devastating.
2. In the 43 year history of social security legislation, substantive changes in the program have always developed from advisory councils made up of representatives of the people affected by the program -- management, labor and the general public. The current HEW/OMB proposals have been developed in camera without consultation with any of the

affected groups. If these proposals should emerge as a part of Administration policy, we could anticipate widespread, deep resentment and protest. In this event, this Administration could not escape the label of "anti-social security."

3. The proposals in themselves are essentially budget gimmicks. From 25 years of experience of lobbying on Capitol Hill for social legislation, I have no hesitancy in advising you that these proposals have practically no chance of being adopted. The net result therefore would be the Administration arousing all of the potential political opposition without improving the budget situation or deriving any other advantage.

4. The younger and middle-age workers who every payday forego a substantial part of their disposable income through the payment of their social security payroll tax do so because they have been convinced that they are establishing their entitlement to the benefits spelled out in the law. Reductions in these benefits as proposed by HEW/OMB would be interpreted by them as a breach of faith on the part of the government -- just as serious a breach in their view as the government going back on redeeming Savings Bonds at stated value. However the OMB may look upon trust fund accounts, I can assure you that the public considers them as representing absolutely fixed obligations of the government.

The adoption of the HEW/OMB proposals could jeopardize other important Administration proposals. For example, you have established a commission to study the desirability of merging the Federal employees' retirement system with Social Security. Federal employees organizations so far have opposed. An indication by the government that Social Security taxes, which they would be called on to pay, could be used for other purposes than paying benefits would clinch the arguments of the Federal employees and make it absolutely impossible to ever achieve this goal.

FOR STAFFING
FOR INFORMATION
FROM PRESIDENT'S OUTBOX
LOG IN/TO PRESIDENT TODAY
IMMEDIATE TURNAROUND
NO DEADLINE
LAST DAY FOR ACTION

ACTION
FYI

ADMIN CONFIDENTIAL
CONFIDENTIAL
SECRET
EYES ONLY

VICE PRESIDENT

JORDAN

EIZENSTAT

KRAFT

LIPSHUTZ

MOORE

POWELL

RAFSHOON

WATSON

WEXLER

BRZEZINSKI

MCINTYRE

SCHULTZE

ADAMS

ANDRUS

BELL

BERGLAND

BLUMENTHAL

BROWN

CALIFANO

HARRIS

KREPS

MARSHALL

SCHLESINGER

STRAUSS

VANCE

ARAGON

BUTLER

H. CARTER

CLOUGH

CRUIKSHANK

FALLOWS

FIRST LADY

GAMMILL

HARDEN

HUTCHESON

LINDER

MARTIN

MOE

PETERSON

PETTIGREW

PRESS

SANDERS

VOORDE

WARREN

WISE

United States Senate
WASHINGTON, D.C. 20510

To Ham →
T.M.
J

Mr President -

This man would now
be the president of a major
bank if he hadn't decided
to serve the public!

I hope you will
consider what a significant
contribution he can make
to you, the Fed. and the
country.

Best regards,
Beich

FOR STAFFING

FOR INFORMATION

FROM PRESIDENT'S OUTBOX

LOG IN/TO PRESIDENT TODAY

IMMEDIATE TURNAROUND

NO DEADLINE

LAST DAY FOR ACTION

ADMIN CONFIDENTIAL

CONFIDENTIAL

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EYES ONLY

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VICE PRESIDENT

JORDAN

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GAMMILL

HARDEN

HUTCHESON

LINDER

MARTIN

MOE

PETERSON

PETTIGREW

PRESS

SANDERS

VOORDE

WARREN

WISE

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

15 December 78

MEMORANDUM FOR:

MRS. CARTER

FROM:

BETTY UBBENS *BU*

SUBJECT:

THIS Party

On Thursday afternoon from 2:00-5:00 p.m. the President will be in a budget appeal meeting. Fran will make sure the THIS party is noted on his schedule in case the appeal ends early.

*Diplomatic Children's
Party — Jason, James,
etc.*

*I want you to come to this,
if possible*

DEC 18 1978

THE WHITE HOUSE
WASHINGTON

12/20/78

Gretchen Poston

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Tim Kraft

*Grechen
I agree
J*

December 12, 1978

MEMORANDUM TO: President Jimmy Carter

John D. Montgomery, a member of the Democratic National Committee from Kansas, is a friend of Parks Rusk who I mentioned to you. He has recently retired as Director of the Kansas Highway Department. He also owns Junction City Daily Union, 12 weeklies, three shoppers and an army weekly serving nearby Fort Riley. He recently bought a newspaper in Colorado.

According to Parks, he is very close to Governor Carlin.

His address is: The Daily Union, Junction City, Kansas 66441, and telephone number: 913/238-5474; office 913/763-5000.

Parks thinks that we should get Montgomery to the White House on some occasion as he could be very helpful in the Democratic primary there. I believe you said you had already met him.

CHK
Charles H. Kirbo

CHK/b

THE WHITE HOUSE

WASHINGTON

December 19, 1978

C

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
BILL JOHNSTON
SUBJECT: DOT Budget Appeal

DOT is appealing two major and three secondary OMB decisions. The major issues are:

1) "Second Tier" Transit Operating Assistance

OMB has proposed to rescind all 1979 funds appropriated for the so-called "Tier II" of transit operating assistance and to eliminate all funds for the program in the 1980 budget. This program, which was first enacted as part of the 1978 Highway Transit bill, provides extra subsidies to cities over 750,000 population. Congress authorized up to \$250 million annually for the program and appropriated \$150 million in 1979. The 1979 money has already been apportioned by DOT and appears in the budgets of most affected cities.

The justification of the extra operating assistance is that large cities tend to be much more dependent on mass transit than smaller cities. The current formula for apportioning transit assistance, however, does not fully recognize this transit dependence. The "Tier II" formula, which is specifically based on ridership, helps to correct this apportionment imbalance.

OMB's opposition to "Tier II" is based on a fundamental disagreement with the justification for transit operating assistance. OMB feels that transit is primarily a local responsibility and that transit riders should not be insulated from fare increases. They point out that although we signed the Highway-Transit bill we did not support this extra transit operating money.

I recommend restoration of this money. For most cities, lower federal subsidies will mean higher budget deficits rather than higher fares. The mayors representing these large urban areas - New York, Boston, Chicago, Detroit, and

others -are likely to see this as one more weight added to the sharply greater fiscal burden our budget will require them to bear. Even the \$150 million level is below their hopes and expectations. While I do question the justification for transit operating assistance, I do not believe elimination of subsidies for the most hard-pressed and transit dependent cities is the proper approach to this issue. Of the various possible additions to the budget, this is one of the most highly targetted.

2) Airport and Airway Development Trust Fund

OMB proposes to decrease the passenger ticket taxes flowing into the airport fund from 8% to 5% in 1981. They also propose modest increases in expenditures from the fund, both for airport development and FAA operations. DOT proposes to hold passenger taxes level, and to increase outlays sharply both for FAA operations and for airport development. DOT and OMB agree that taxes on aviation and gasoline and equipment should be increased.

OMB's rationale is based primarily on the need to reduce the unobligated trust fund balance to keep it from becoming more of a target for spending proposals such as last year's aircraft noise reduction proposal. (The noise bill will be reintroduced early in 1979.)

DOT and Treasury believe that any steps to reduce taxes levied on relatively affluent airline passengers is both inequitable and inconsistent with our budget and user charge goals.

I agree with DOT that we should not propose a tax reduction at this time. Moreover, I share DOT's view that we should seek maximum use of the trust fund revenue to cover FAA operating costs. This has historically been our position, even though we have had little success in Congress. However, I agree with OMB that we should not increase development spending so sharply from the fund. We could agree reluctantly to somewhat higher development spending during Congressional negotiations, but we should do so only in return for action on our proposals to increase the use of the fund for FAA expenses. In summary, I would hold passenger tax levels at 8% and propose to reduce the trust fund balance primarily by increasing trust fund expenditures for FAA operations.

3) Other Issues

On all other issues, including airport discretionary grants, airbags, and railroad safety inspectors, I agree with the OMB decisions.

THE WHITE HOUSE

WASHINGTON

December 19, 1978

Stu -
It's easy to
advocate the
highest spending
levels -
J

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
ORIN KRAMER, RALPH SCHLOSSTEIN
SUBJECT: HUD Budget

I received the HUD budget materials late this afternoon, and my comments below must be tentative until we have had an opportunity to review the HUD issues in the context of the overall budget.

ISSUE #1: Subsidized Housing

Should the Administration seek legislation to change the mix between new and existing units?

HUD is statutorily required to allocate subsidized housing units in accordance with locally prepared housing assistance plans (HAPs). In its HAP, a municipality sets forth its low income housing needs in terms of housing type (new construction, substantial rehabilitation, existing housing) and household type (elderly, large family, etc.). These needs determine the proportions in which subsidized units are distributed within the municipality: i.e., the local government's share of housing funds will be distributed in proportion to the goals expressed in the HAPs.

HUD is required to aggregate local HAP goals to provide a nationwide "mix" of needs for new, rehabilitated and existing housing. The latest HAPs dictate a "mix" of 66% new construction/substantial rehabilitation and 34% existing units, which is the proportion recommended by HUD. OMB recommends imposing a 55/45 split. OMB concedes that this is an arbitrary figure which is unrelated to local housing goals, but which reflects the need to increase the share of federal dollars going to existing units.

I share OMB's views on several points:

-- The present methodology may be biased toward new

construction - i.e., if localities took account of the number of units the Federal government was actually likely to support, the percentage of new units might be smaller.

-- Existing units are less expensive than new units and thus for each federal dollar a 55/45 mix will support about 10% more units than will a 66/34 mix.

-- Although OMB does not raise the point, the continuing deterioration of structurally sound urban housing is a major policy problem which can be partially redressed by increased subsidies for existing housing stock.

I share OMB's conclusion that we should reconsider the present method of determining the housing mix. However, I believe OMB's proposed remedy - the imposition of an artificial 55/45 mix - is both analytically and politically unsound, for the following reasons:

-- OMB characterizes its recommendation as supportive of the concept of local involvement in determining local housing needs, but OMB would concede that the 55/45 mix is absolutely unrelated to locally derived HAP figures. It may or may not be correct that the present HAP methodology distorts real local needs; but if so, the solution is to devise a new method for calculating the HAP, rather than resorting to an arbitrary standard unrelated to local needs. Specifically, you could direct HUD and OMB to develop a new approach which reflects local needs but builds in OMB's proposed changes in calculating the HAP - i.e., planning and budget constraints on new construction, and other changes amenable to OMB and HUD.

-- OMB's approach rejects a basic principle of housing policy endorsed overwhelmingly by the Congress, housing constituencies, and Mayors in each of the past four years: that localities, rather than Washington, should determine local housing priorities. This approach will have adverse practical consequences. Reliance upon local housing needs permits HUD to ensure that local communities proportionately serve all household types which have been identified as having unmet housing needs in the community. OMB's approach, which would target greater assistance to areas with higher vacancy rates, would discriminate against larger households, since there are few vacant units with three or more bedrooms. Since a high percentage of large poor families are minorities, minority groups would characterize the OMB approach as discriminatory.

-- HUD's approach would involve lower outlays than OMB's proposal through 1984, although in subsequent years the HUD approach would be more expensive.

-- Politically, there has been overwhelming support for the HAP among Banking Committee members and senior Democrats such as Proxmire, Reuss and Ashley. Attempts by the Ford Administration to avoid the HAP in order to reduce new construction were repeatedly defeated. In fact, the importance Congress attaches to the HAP has been reiterated annually in HUD's authorizing legislation and legislative history. There is no reason to believe that this Administration would be more successful than was its predecessor.

-- OMB notes that the proportion of the HAP mix devoted to new construction has been rising, but it fails to note why this increase has occurred. The increased reliance of localities on federal construction subsidies reflects the simple facts that production of multifamily housing has dropped by over 50% over the past five years, and that multifamily housing for low and moderate-income families cannot be built without federal subsidies. In 1979, over 50% of the 400,000 multifamily rental starts will be subsidized through Section 8 or public housing, and another 100,000 will receive other HUD financing benefits. With a low nationwide vacancy rate of 5%, the merits of reallocating housing dollars from new construction to existing housing are unclear.

Recommendation: I recommend that you support alternative 1, HUD's approach, with the caveat that HUD and OMB should reach agreement on revisions in the HAP methodology to correct any biases toward new construction. HUD officials have indicated that such revisions could be implemented in allocating 1981 housing funds, and the Department should be held to this date.

ISSUE #2: Section 701 Planning Grants

Should the Administration discontinue the Section 701 Planning Program?

HUD and OMB disagree on whether the 701 program should be discontinued (OMB's view) or expanded to encourage the development of State urban strategies (HUD's view). I have the following views:

-- Relative to the CDBG, housing and Section 312 programs, the 701 program is relatively unimportant. It enjoys less support in the Congress and has been the target of Congressional and Executive budget-cutting efforts for years.

-- While an expansion of the program to fund State urban strategies might be justified in a less austere budget, I would not recommend an expansion of the 701 program when we are cutting other programs that deliver more essential services.

-- While OMB is prepared to accept a \$50 million funding level for 701, full funding of CDBG is far more important in my view.

Recommendation: An immediate elimination of the program would not give State and local governments sufficient time to adjust their budgets. If you decide to eliminate the program, perhaps a one-year phasedown, funded at \$25 million, might be more saleable. However, my preference would be to fund this at the \$50 million level

ISSUE #3: Community Development Block Grants (CDBG)

Should the Administration reduce CDBG budget authority by \$150 million?

OMB recommends that we not provide the \$150 million in budget authority needed to fund fully the Community Development Block Grant Program at authorized levels. In outlays, OMB's recommendation would save \$5 million in 1980, and \$63 million in 1981. I join HUD in strongly recommending that the program be fully funded for the following reasons:

-- The OMB recommendation requires that we submit extremely controversial legislative amendments to the Congress. The current CDBG authorizing statute precludes funding for the UDAG and urban renewal closeouts, if CDBG is not fully funded. This compromise was negotiated by Senator Williams (representing the Administration's view) and "Sunbelt" Senators, who otherwise would not have accepted the highly targeted UDAG program and CDBG formula changes that the Administration proposed. The legislative changes suggested by OMB would upset this compromise, which we endorsed, and would be strongly opposed by Senator Williams and "Sunbelt" Senators.

-- It is quite conceivable that we could lose the entire UDAG program, or its targeting, in the debate over this legislative proposal. As you are aware, many Senators already are trying to reduce the targeting of UDAG. This legislative proposal would provide a perfect vehicle for these interests. If the UDAG program is lost, the blame will fall squarely on the Administration, because we would have precipitated an unnecessary debate on this issue.

-- The \$150 million represents a 4 percent increase in the CDBG program, well below the expected inflation rate. Moreover, it would increase FY 1980 outlays by only \$5 million and FY 1981 outlays by \$63 million.

-- If the Administration wants to delete the legislative provision tying UDAG's authorization to CDBG appropriation levels, we can do so in fiscal 1981 when the CDBG authorization expires. If we do so now, there will be questions as to why we jeopardized the existence of UDAG - the Administration's leading urban economic development achievement.

Recommendation: I recommend that you maintain the CDBG program in 1980 at its authorized level, which will add \$150 million in budget authority and \$5 million in 1980 outlays above OMB's recommendation.

ISSUE #4: Section 312 Housing Rehabilitation Loans

Should we cut funding for the Section 312 program?

OMB and HUD have agreed that the level of funding for the Section 312 housing rehabilitation program should be \$185 million in FY 1980. This level of funding represents a cut of \$75 million from the FY 1979 program level and from the level of funding that you recommended to Congress last March in your urban policy. I have the following concerns about this cut:

-- The "roller-coaster" program levels to which OMB and HUD have agreed (FY 1978 - \$80 million, FY 1979 - \$260 million, FY 1980 - \$185 million) make it very difficult for cities to plan adequately and to manage their ongoing housing rehabilitation programs. Many Mayors have complained that the "ups and downs" of Federal funding prevent them from developing housing rehabilitation expertise on their staffs and, more importantly, reduce the incentive for private sector developers to expand their housing rehabilitation activities.

-- The reduction from the urban policy level of funding (\$260 million) will be viewed as a major step backward from your urban policy commitments. For better or worse, the programs that were expanded as a result of the urban policy will be scrutinized with particular care by the Mayors, Governors, etc, in the FY 1980 budget. This action, along with others we are taking, will cause many to question the Administration's commitment to the urban policy.

-- The Section 312 program is the major tool that cities use to encourage moderate income families to locate in urban neighborhoods and to assist low-income families to upgrade the quality of their own units. As such, it is important to those cities that are attempting to retain residents of all income levels.

-- OMB argues that cities have been slow to spend Section 312 funds and, therefore, that the reduction in program funding will not reduce the level of services provided. I disagree with this view because:

- 1) The Section 312 program has been a rapidly expanding program in the last two years. Like any rapidly expanding program, outlays lag behind budget authority. In this sense, the 312 program is not unlike CETA when we expanded it as part of the stimulus package or Local Public Works.
- 2) Allocations of 312 funds often are made in the middle or end of the Federal fiscal year. When this is done, funds are not spent until the following Federal fiscal year. Thus, cities often are making rapid commitments, but the expenditures are occurring in the ensuing fiscal year.

Recommendation: While any decision on this issue should be delayed until you examine the fiscal budget overview, I recommend that you consider restoring the Section 312 program to its FY 1979 funding level. Such a restoration, according to OMB staff estimates, would increase FY 1980 B.A. by \$75 million, FY 1980 outlays by approximately \$20 million, and FY 1981 outlays by approximately \$45 million.

ISSUE #5: Tax-Exempt Financing for Private Developers

I have not had adequate time to review this issue to make a recommendation at this time.

THE WHITE HOUSE

WASHINGTON

December 19, 1978

C
/

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: Impact of FY '80 Budget on State and
Local Governments

As Jack has indicated in his set-up memos for tomorrow's meetings with the Mayors and the Governors, their principal concerns will be budgetary. While they will praise the Administration's record to date in expanding and improving assistance to state and local governments, they will emphasize that this record will be irreparably impaired if there are deep cuts in CETA and youth jobs, if some type of counter-cyclical bill is not resubmitted, and if the overall level of Federal grants-in-aid is reduced to the mark proposed by OMB.

You do not need to respond directly to their presentations, since the meeting's basic purpose is to let you hear their arguments and concerns rather than to have us present a case for the importance of a tight budget. However, I thought it might be useful background information for you to see the projected impact on state and local governments if you approve the FY '80 budget in the form currently proposed by OMB. The impact is severe - much worse than I had realized until seeing the overall figures - and clearly accounts for the vehement arguments you will hear tomorrow.

The information provided below may be changed somewhat by the time you have your final meeting with OMB on Friday. This afternoon, as you requested, the Vice President, Charlie, Mike, Frank, Jack, Ann and I met with OMB for several hours to review the budget. The meeting was very productive, and I think some progress can be made toward restoring some of the most politically devastating cuts. I am now preparing for Jim a prioritized list of add-backs to the budget that the Vice President and senior staff recommend. The list will

present priorities in the various ranges of revenues that might be available (from \$1 billion to \$3 billion) after final budget decisions are made. We will be meeting again on Thursday to discuss the list, and will review it, along with a number of potential revenue raisers, with you on Friday.

I. BACKGROUND (See Attachment 1 - Budget in Current and Constant Dollars)

In the three fiscal years since the Administration took office (FY '77 - FY '79) budget outlays overall have grown by an average of 3.3% in real terms, with defense rising at an average rate of 1.5% and domestic expenditures rising at an average of 3.5%. However, grants-in-aid to state and local government (essentially the discretionary non-defense programs in the budget) have risen an average rate of 4.3% annually. (See Attachment 2 - Federal Grants to State and Local Governments).

Def + 1 1/2%
Dom + 3 1/2%
St/Loc + 4 3/4%

Under the current overall OMB mark, assuming a \$30 billion deficit and a 3% real increase in defense, domestic expenditures (excluding interest) would decrease 0.6% in real terms in FY '80.

The impact on state and local government is especially troubling. Grants-in-aid outlays would decline under the OMB mark by about \$3 billion (4.1%) in current dollars. If enacted, this would be the first actual decline in grants-in-aid since 1946. Taking inflation into account, the reduction in real terms would approach \$10 billion and 10%, and would exceed 12% for the past 2 years.*

II. IMPACT ON PROGRAMS

For example, based on our best information on the current status of appeals, the impact on key domestic programs is severe: (See Attachment 3 - Changes in Federal Grants-in-Aid).

- o A reduction below FY '79 of \$2.1 billion (30%) and 223,000 jobs in adult employment programs.
- o A reduction of \$400 million (18%) in youth employment programs, resulting in a loss of 100,000 full-year slots and 475,000 summer youth jobs.
- o A reduction of \$900 million in education, and \$400 million in medical education.

*This analysis discounts the impact of hospital cost containment, which does not impact service levels.

- o A reduction of \$1-1.5 billion in Social Security resulting in reductions of \$7-9 billion by 1984.
- o Controversial rearrangement of the cost allowance and construction mix of subsidized housing, reducing authorizations by \$4-7 billion.
- o Eliminations of \$150 million of extra transit operating assistance provided to large cities.

As a result of such deep programmatic cuts as these, I believe that State and local leaders:

- o Will be upset that grants-in-aid, which constitute approximately 16% of the budget, will bear more than 60% of the cuts from current policy budget levels;
- o Will question a budget in which grants-in-aid decline by more than 4% while defense grows by nearly 10%, in current dollars; and
- o Will observe that much of this reduction comes in targeted programs for the disadvantaged -- notably employment, health, and education.

The degree of shift in Administration policy away from our urban and minorities constituencies is emphasized when one considers that, in addition to reductions in the existing program base, the Administration, under current OMB plans, will not ask Congress for over \$2 billion in targeted aid (Anti-recession Fiscal Assistance State Incentive Grants and Labor-Intensive Public Works) announced in the Urban Policy, and we are certain to sharply scale back our welfare reform proposal.

You should also note as well that the enacted increase in Social Security taxes will cost state and local governments \$1.5 billion additional in FY '80, and that implementation of the "Section 504" handicapped civil rights protections will also add substantial costs.

ATTACHMENT 1

BUDGET IN CURRENT DOLLARS (BILLIONS)

FY	DEFENSE	(% Increase)	Inter'l Affairs	(% Increase)	Domestic Programs (less interest) (%Increase)	Grants in Aid	(% Increase)	Total	(% Increase)
1976	89.4		5.6		235.7	59.0		365.6	
1977	97.5	(9.1%)	4.8	(-14.3%)	262.4 (11.3%)	68.4	(15.9%)	402.8	(10.2%)
1978	105.2	(7.9%)	5.9	(22.9%)	295.7 (12.7%)	78.1	(14.2%)	450.7	(11.9%)
1979	114.5	(8.8%)	6.3	(6.8%)	318.7 (7.8%)	81.5	(4.4%)	491.6	(9.1%)
1980	125.5	(9.6%)	8.6	(36.5%)	337.6 (5.9%)	78.0*	(-4.3%)	530.2	(7.9%)

BUDGET IN CONSTANT 1976 DOLLARS (BILLIONS)

FY	DEFENSE	(% Increase)	Inter'l Affairs	(% Increase)	Domestic Programs (less interest) (%Increase)	Grants in Aid	(% Increase)	Total	(% Increase)
1976	89.4		5.6		235.7	59.0		365.6	
1977	91.5	(2.3%)	4.5	(-19.6%)	246.2 (4.5%)	64.2	(8.8%)	377.9	(3.4%)
1978	92.0	(0.5%)	5.2	(15.6%)	258.5 (+5.0%)	68.3	(6.4%)	394.0	(4.3%)
1979	93.5	(1.6%)	5.1	(-1.9%)	260.4 (+0.7%)	66.6	(- 2.5%)	401.6	(1.9%)
1980	96.2	(2.9%)	6.6	(29.4%)	258.9 (-0.6%)	59.9*	(-10.1%)	406.6	(1.2%)

*excludes impact of Hospital Cost Containment legislation on Medicaid grants.

ATTACHMENT 2

FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS

	<u>FY</u> <u>1978</u>	<u>FY</u> <u>1979</u>	<u>FY '80</u> <u>Current</u> <u>Policy</u>	<u>FY '80</u> <u>OMB Staff</u> <u>Recommendations</u>
Total Grants-in-aid (\$millions)	78,082	81,477	87,046	77,747
Total Grants-in-aid (millions - adjust for inflation)	78,082	76,070	76,500	68,380
Percent change from previous year (constant dollars-adjusted for inflation)		-2.5	+ .6	-10.0
Percent change from previous year (current dollars)		+4.3	+6.9	- 4.6

Attachment 3

Changes in Federal Grants-in-Aid From Current Policy Levels
(dollars in millions)

Agency and Program	OMB Recommended Change in 1980 Outlays From Current Policy ¹
<u>Grants</u>	
Department of Labor	
Employment and training assistance...	-1,206
Temporary employment assistance.....	-1,705
Welfare reform.....	-2,162
Other.....	-20
Subtotal.....	-5,093
Department of Transportation	
Federal-aid highway (trust fund).....	-849
Urban mass transit.....	-161
Other.....	-93
Subtotal.....	-1,103
Department of Health, Education, and Welfare	
Elementary and secondary education...	0
Impact aid.....	-231
Comprehensive health grants.....	-63
Health resources administration.....	-117
Medicaid.....	-346
Maintenance assistance.....	-355
Other.....	34
Subtotal.....	-1,078
Department of the Treasury	
Supplementary fiscal assistance.....	-1,000
General revenue sharing.....	+6
Department of Commerce	
Labor intensive public works.....	-300
Regional action planning commissions.	4
Department of Agriculture	
Child nutrition and special milk.....	-445
WIC (women, infants and children)....	+200
Food donations.....	-6
Subtotal.....	-251
Department of Energy.....	-191
Department of Interior.....	-146

Changes in Federal Grants-in-Aid From Current Policy Levels
(Cont'd)

<u>Agency and Program</u>	<u>OMB Recommended Change in 1980 Outlays From Current Policy¹</u>
Department of Justice LEAA formula grants.....	-101
Department of Housing and Urban Development.....	-28
Environmental Protection Agency Construction grants.....	0
State environmental grants.....	-18
National Development Bank.....	0 =====
Total, grants.....	-9,299

¹Current policy estimates are those presented in the Fall Director's Overview.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

December 20, 1978

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EYES ONLY

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

Subject: Revision of Third-Quarter GNP

Today (Wednesday, December 20) at 10:30 a. m. the Commerce Department will release a revised estimate of GNP growth in the third quarter. New data indicate that real GNP grew at a 2.6 percent annual rate in that quarter, instead of the 3.4 percent rate indicated earlier.

This is a fairly large revision, but it has limited significance for appraising the strength of the economy. Three-fourths of the downward adjustment reflects a lower estimate of net exports, and this is in the main, a result of new data on investment income earned abroad. Revisions of domestic expenditures would have changed the GNP estimate by only two-tenths.

We will also get tomorrow the Commerce Department's first unpublished estimate of real GNP growth in the fourth quarter. It will be in the neighborhood of 5 percent. The average growth rate for the two quarters taken together -- around 3-3/4 percent -- is all we could want.

The press will not know about the unpublished estimate of fourth-quarter growth. It seems unlikely, however, that the downward revision in the third quarter figure will be interpreted as a sign of economic weakness, because all the available statistics indicate a very strong fourth quarter.

2:45 PM

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THE WHITE HOUSE

WASHINGTON

December 19, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON *Jack*
SUBJECT: FY 1980 Budget Meeting with
the Governors:
December 20, 1978
2:45 p.m. Cabinet Room

Immediately following your meeting with the Democratic mayors, you will go into the Cabinet Room for a meeting with the Executive Committee and Standing Committee Chairpersons of the National Governors' Association. A list of the Governors who are expected to be present is attached. As with the mayors, the purpose of the meeting is to give the Governors a chance to express directly to you their views, concerns, and priorities on the FY 1980 budget. They understand that no final decisions have been made, and that this meeting is primarily an opportunity for them to express themselves to you.

I expect the following specific legislative/budget issues to be mentioned:

- Welfare reform and fiscal relief;
- Hospital cost containment and development of health care financing legislation;
- General Revenue Sharing;
- Strengthening and reauthorization of Title V Regional Commissions;
- Further development and implementation of your national water policy;
- Reauthorization of LEAA;
- Passage of legislation to strengthen the State capacity in energy resource allocation and development (e.g., impact assistance, coal transportation, energy policy management);

- Development of a national policy for small cities and rural areas.

As a general matter, the Governors are very concerned that Federal budget decisions not be made that would shift fiscal burdens to State budgets. State and local leaders colloquially refer to such proposals as the "shift and shaft" strategy.

Following your departure from the meeting, members of OMB and the Senior White House Staff will be available for further discussion with the Governors.

Press Coverage

There will be a brief photo session at the beginning of your meeting with the Mayors.

Attachment

ATTENDEES

FY 1980 BUDGET MEETING WITH GOVERNORS

December 20, 1978

2:45 p.m. Cabinet Room

Julian Carroll (Kentucky. Chairman, National Governors' Assoc.)

Otis R. Bowen (Indiana)

James R. Thompson (Illinois)

Dixy Lee Ray (Washington)

Richard A. Snelling (Vermont)

J. Joseph Garrahy (Rhode Island)

Brendan T. Byrne (New Jersey)

Stephen Farber (Executive Director, National Governors' Assoc.)

Ivan Potter (Executive Assistant to Governor Carroll)

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

December 20, 1978

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MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze ^{CLS}
Subject: GNP in the Fourth Quarter

The Commerce Department distributed among government agencies this morning its first estimate of GNP growth in the fourth quarter. Real GNP is estimated to be growing at a 5.0 percent annual rate this quarter, compared with 2.6 percent in the third quarter. This estimate will not be published.

The change from a 4.2 percent growth rate in the first half of the year to 2.6 percent in the third quarter to 5.0 percent in the fourth is largely due to gyrations in inventory investment and net exports. If we look at final sales less net exports (which eliminates both inventories and net exports) the growth rates are nearly the same -- 4.4 percent in the first half, 4.4 percent in the third quarter and 4.7 percent in the fourth. Thus, the economy is still growing strongly this quarter, as it did in the previous nine months.

The GNP price indexes (the "deflators") are rising considerably faster in the fourth quarter than in the third. According to those indexes, the inflation rate is running at a rate between 8 and 9 percent. The speedup is mainly in prices of food and energy.

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MBER 20, 1978

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EDITOR

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A Bad Film by

a Good Director

